

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 461 **Senator Torlakson (As introduced 2/22/01)**

Position: **Support, if amended**

Proponents: **ACSA, CTA**

Opponents: **None known**

SUMMARY

SB 461 creates a Catastrophic Prescription Drug Insurance (CPDI) Program to provide high deductible coverage for prescription drugs to retired members of the Defined Benefit (DB) Program who retire with unspecified minimum levels of credited service.

HISTORY

Chapter 1032, Statutes of 2000 (SB 1435—Johnston) requires the California State Teachers' Retirement System (CalSTRS) to pay the Medicare Part A premiums for those eligible retired members of the DB Program effective July 1, 2001, including any penalties applicable to enrollment in Parts A or B by eligible members who enroll after age 65. The premiums would be paid from the Teachers' Health Benefit Fund, created by the bill.

Chapter 874, Statutes of 2000 (AB 2383—Keeley), among other things, requires CalSTRS to report to the Legislature on a prescription drug program and a health benefits program for retired members, and authorized the California Public Employees' Retirement System (CalPERS) to submit a proposal to administer a health benefits program for CalSTRS retirees and their dependents.

Chapter 740, Statutes of 1999 (SB 159—Johnston) requires CalSTRS to develop a program to provide health care benefits for members, beneficiaries, children, and dependent parents.

Chapter 968, Statutes of 1998 (SB 1528—Schiff) requires CalSTRS to conduct a study on the feasibility of a health care program, including vision and dental, for CalSTRS members, beneficiaries, children, and dependent parents.

CURRENT PRACTICE

The availability of health care benefits for retired CalSTRS members varies among the membership and has historically been provided by school district employers on a district-by-district basis. Some districts provide full health care benefits, paying 100 percent of the premiums for medical, dental and vision insurance to retired teachers and their dependents, while other districts provide vested health insurance benefits to their retired employees, or offer benefits only until the age of 65. Still other districts do not provide any health care coverage to their retired employees.

Pursuant to Chapter 1032, Statutes of 2000 (SB 1435—Johnston), beginning July 1, 2001, CalSTRS will pay the Medicare Part A hospitalization premiums of DB Program members who retired prior to January 1, 2001, and are ineligible to receive premium-free coverage, provided they enroll in Medicare Parts A and B by the age of 65 or on July 1, 2001, whichever is later. As authorized under Chapter 1032, the Teachers' Retirement Board (Board) voted in May to extend the program to pay the Part A premiums of members who retire prior to January 1, 2006, provided they meet certain conditions specified in statute. As a service to the retired member, CalSTRS deducts monthly health care premiums, including Part B (physician services) premiums, from retirement allowances at the member's request, and forwards the money to the appropriate provider. No other statewide health care benefit, including prescription drugs, is provided to CalSTRS retirees.

Proposed Federal Legislation

The Bush Administration's budget proposes an "Immediate Helping Hand" prescription drug plan for seniors to provide short-term assistance in a short period of time for low income seniors to cover all or part of the cost of prescription drugs, and catastrophic drug coverage for all seniors. Under the proposal, prescription drug coverage would be available to seniors whose incomes are at or below 135 percent of the poverty line for no premium and nominal co-payments. Partial coverage for those with incomes between 135 percent and 175 percent of poverty would also be offered. The budget also proposes providing funds to the states for catastrophic coverage for all seniors with over \$6,000 in out of pocket drug costs per year.

According to CalSTRS' Washington counsel, there is strong interest in implementing some form of prescription drug benefits for seniors. Legislation to provide a subsidy under Medicare for the purchase of private insurance for prescription drug coverage has been introduced and is expected to reach the floor by August. Although the timing is uncertain, any program implementation would not be until 2003.

Pursuant to Chapter 874, Statutes of 2000 (AB 2383—Keeley), CalSTRS reviewed catastrophic prescription drug plans along with other possible health benefit programs designed to extend healthcare coverage to all retired members. In the CPDI Program discussed in the report prepared pursuant to Chapter 824, CalSTRS members who retire with a specified amount of credited service would receive coverage after total prescription drug coverage exceeded a specified amount. Members would pay a co-payment up to a second specified amount. The plan

is not a first-dollar plan, but would be a basic safety net for the protection of DB Program members against catastrophic prescription drug costs.

In the report, the Board recommended that the Legislature enact legislation, subject to the availability of resources to CalSTRS, to establish a catastrophic prescription drug plan to pay retired members' prescription drug costs above a specified level, and establish individual nominal health benefit accounts for retired members, with CalSTRS contributions credited to the accounts to pay Medicare Part B premiums or an equivalent subsidy.

The report notes that as many as 30 percent of CalSTRS members age 65 or older will have prescription drug costs greater than \$1,800 in any year. It estimates that a Catastrophic Prescription Drug Insurance Plan would require a high deductible of between \$1,200 to \$2,000 per member to keep the cost of the plan within an agreed upon amount based on available resources.

DISCUSSION

SB 461 establishes a CPDI Program with high deductible coverage for retired members of the DB Program with an unspecified amount of credited service. The CPDI Program would be fully automated and coordinated with each retiree's medical insurance plan, district-paid health insurance programs, pharmacies, and would be secondary to Medicare. The plan would use the formularies established by the retiree's existing benefits, if any. CalSTRS could administer the plan, or the Board would be able to contract with a prescription drug insurance plan to provide coverage for eligible retired members. The bill also allows the Board to set the deductible, copayment and maximum benefit level in order to limit the cost of the program.

Administration of the CPDI Program

The CPDI Program could potentially be administered in-house or contracted out with a pharmacy benefits manager. If this program were to be administered in-house with a fully automated CPDI Program that is coordinated with each retiree's medical insurance program, and secondary to any Medicare benefits, CalSTRS would have to develop and establish significant staff and system capacity and expertise. CalSTRS would have to hire or develop staff with insurance and pharmaceutical expertise and establish an insurance function in addition to our normal pension functions. Given the enormous administrative efforts that would be required to administer the program in-house, a more practical alternative would be to contract with a pharmacy benefits manager to implement and maintain the program.

Federal Legislation

As noted above, federal legislation to include prescription drug insurance for seniors is currently before Congress. The CPDI Program proposed in this bill would be implemented about the same time as the federal program. This will complicate efforts to integrate the CalSTRS program with Medicare, as required by the bill.

Depending on how the program is designed and implemented, there may be privacy issues with respect to CalSTRS' requirement for knowledge of members' health care status. Specifically, CalSTRS or its pharmacy benefits manager may become subject to provisions in the Health Insurance Portability and Accountability Act of 1996.

FISCAL IMPACT

Benefit Program Costs – The report prepared pursuant to Chapter 874 identified different catastrophic prescription drug plans with different deductible levels. The estimates assume that there would be:

- A co-payment of \$10
- Co-payments that are waived after \$7,000 in drug costs per year, and
- No maximum benefits per year.

If the deductible is \$1,200 per year, the cost is estimated to be \$50 per member per month. If the deductible were raised to \$2000 per year, the cost would be approximately \$25 per member per month. Total costs over ten years for a plan that was limited to members with 15 years of credited service were \$650 million (assuming 200,000 covered members and dependents) with a \$1,200 annual deductible and \$427 million with a \$2,000 deductible, if the deductibles were subject to an annual adjustment.

Administrative Costs – The administrative costs will depend on the eventual program design. Major considerations, as noted above, include whether the program is administered in-house or contracted out. The estimated administrative costs would be determined after these decisions are made. At a minimum, the costs to modify existing databases to handle premium payments and other member account information would exceed \$1 million.

BOARD POSITION

Support, if amended to identify funding to finance the program costs and specify the number of years of service credit a member would need to qualify for the CPDI Program.